

Message Text

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67

ACTION EA-10

INFO OCT-01 ISO-00 AID-05 CIAE-00 COME-00 EB-04 FRB-01

INR-05 NSAE-00 RSC-01 TRSE-00 XMB-02 OPIC-03 SP-02

CIEP-01 LAB-01 SIL-01 OMB-01 PA-01 PRS-01 USIA-06

AGR-05 NSC-05 SS-15 STR-04 CEA-01 DRC-01 /077 W

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R 202245Z OCT 74

FM AMEMBASSY WELLINGTON

TO SECSTATE WASHDC 8797

INFO AMEMBASSY CANBERRA

UNCLAS WELLINGTON 3293

EO 11652: NA

TAGS: EFIN NZ

SUBJECT: DETERIORATING BALANCE OF PAYMENTS SITUATION PROMPTS

SHIFT IN GNZ POLICY

REF A. WELLINGTON 2509 B. WELLINGTON 2784 C. WELLINGTON 3239

1. GNZ IS BELATEDLY GIVING INCREASING INDICATIONS THAT IT IS ABOUT TO SHIFT AWAY FROM ITS POLICY OF PARTIAL MEASURES (SEE REFTELS A AND B) OF NUDGING ECONOMIC TRENDS TOWARD A MORE FAVORABLE COURSE WHILE MAINTAINING THE PUBLIC STANCE OF "IT'ILL COME RIGHT".

2. SEVERAL RECENT MINISTERIAL STATEMENTS REVEAL GROWING CONCERN, IF NOT ALARM, OVER THE LATEST WORSENING TERMS OF TRADE AND CONSEQUENT INCREASING DRAIN ON ALREADY DWINDLING FOREIGN EXCHANGE HOLDINGS.

3. PRIME MINISTER ROWLING HAS SPOKEN OF "SHORT TERM DIFFICULTIES OF A MAGNITUDE RARELY EXPERIENCED IN POST-WAR YEARS". HE CITED THE LOSS OF REAL INCOME RESULTING FROM THE MAJOR SHIFT IN NEW ZEALAND'S TERMS OF TRADE IN THE PAST SIXTEEN MONTHS AND THE CONSEQUENT SEVERE DRAIN ON ITS FOREIGN EXCHANGE HOLDINGS.

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4. THE PM HAS ANNOUNCED THAT HE WILL PRESENT A REPORT

ON THE STATUS OF THE ECONOMY TO COMMUNITY LEADERS ON OCTOBER 23. THIS WILL INCLUDE SOME NEW, TOUGH MEASURES AND ALSO LAY THE GROUND WORK FOR LATER MORE FAR REACHING RESTRAINTS ON THE ECONOMY SHOULD THESE BECOME NECESSARY.

5. THE GOVERNMENT IS FACED WITH A DILEMMA IN ANY ACTION IT TAKES TO SLOW THE DRAIN ON FOREIGN EXCHANGE RESERVES AS IT HAS PLEDGED TO MAINTAIN FULL EMPLOYMENT AND CONTINUED ECONOMIC GROWTH.

6. HIGH LEVEL DISCUSSIONS WITHIN THE GOVERNMENT ARE NOW CENTERED ON DIVISING RESTRAINTS WHICH HOPEFULLY WILL AVOID OR MINIMIZE THE DANGER OF UNEMPLOYMENT AND POSSIBLE DEPRESSION.

7. ROWLING IS PARTICIPATING DIRECTLY IN WORK OF DRAWING UP THE NEW MEASURES. HE IS HOPING THAT BY PRESENTING THE REPORT TO COMMUNITY LEADERS HE WILL MOBILIZE THE NATION TO SUPPORT THE MEASURES HE WILL PROPOSE.

8. THERE APPEARS TO BE A GROWING GENERAL DISPOSITION AMONG THE POPULATION TO "GET BEHIND THE GOVERNMENT IN THIS TIME OF NEED". THE GOVERNMENT IS HOPING TO CAPITALIZE ON THIS. IT WILL NEED THIS COOPERATION TO HEAD OFF THE INCREASINGLY SERIOUS TREND. EVEN IF IT IS SUCCESSFUL THE GOING WILL BE TOUGH.

9. THIS WILL BE A MAJOR TEST FOR PM ROWLING AND HIS NEW TEAM. THE FUTURE POLITICAL FORTUNES OF THE LABOUR GOVERNMENT MAY HINGE ON THIS.
SELDEN

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